

Message Text

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ACTION EB-06

INFO OCT-01 AF-04 ARA-06 EUR-08 ISO-00 L-01 NSC-05 CIAE-00

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TAR-01 AID-05 FRB-01 NEA-06 SS-15 DRC-01 /085 W

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R 181330Z OCT 74

FM AMEMBASSY KINSHASA

TO SECSTATE WASHDC 9804

INFO AMEMBASSY BRUSSELS

AMEMBASSY PARIS

AMEMBASSY LIMA

AMEMBASSY LUSAKA

AMEMBASSY SANTIAGO

AMCONSUL LUBUMBASHI

LIMITED OFFICIAL USE KINSHASA 8791

E.O. 11652: N/A

TAGS: EMIN

SUBJ: CIPEC MEETING IN LIMA ON OCT 28, 1974

1. SUMMARY: WE FIRST READ IN KINSHASA PRESS AND THEN CONFIRMED THROUGH LOCAL SOURCES THAT MEETING OF INTER-GOVERNMENTAL COUNCIL OF COPPER EXPORTING COUNTRIES (CIPEC) WILL BE HELD IN LIMA ON OCT 28. WHETHER THIS IS SIMPLY FOLLOW UP MEETING TO LUSAKA MINISTERIAL HELD IN JUNE OF THIS YEAR OR PREPARATORY MEETING FOR NEXT GOVERNING BOARD OR MINISTERIAL OR BOTH IS UNCLEAR. UNFORTUNATELY, OUR ONLY TALKATIVE CONTACT HERE IS NOT KEY DECISION MAKER, ALTHOUGH HE IS QUITE KNOWLEDGABLE ON CIPEC MATTERS AND MAY ACCOMPANY ZAIRE'S REP TO CIPEC MEETING. WHAT HE HAD TO SAY, THOUGH, COULD RPT COULD MEAN THAT CIPEC MAY BE ON VERGE OF MAKING MOVE TO ATTAIN COPPER PRICE STABILITY, THROUGH COMBINATION OF FLOOR PRICE/BUFFER STOCK SCHEME, AND/OR "POSTED PARICE" A L'AMERICAINE. PRODUCTION CONTROL COMMITMENTS APPARENTLY ARE UNDER CONSIDERATION, BUT

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WE DOUBT THEY ARE IMMINENT. WE ALSO DOUBT THAT THE LIMA MEETING

WILL IN ITSELF BRING SIGNIFICANT CHANGE IN COPPER PRICING BUT PRUDENCE DICTATES THAT WE LOOK CAREFULLY INTO IDEAS SET FORTH SO STRONGLY BY OUR ZAIRIAN INTERLOCUTOR. END SUMMARY.

2. A WORD FIRST ABOUT SOURCE OF THIS REPORT, THE KINSHASA REP OF STATE-OWNED COPPER COMPANY, GECAMINES. RUTAGARAMA IS BRIGHT KNOWLEDGEABLE ZAIREAN WHO PERFORMS ESSENTIALLY A LIAISON FUNCTION BETWEEN GECAMINES HEADQUARTERS IN LUBUMBASHI AND GOVT HERE IN KINSHASA. POLICY-MAKING IS NOT REALLY WITHIN HIS PURVIEW, ALTHOUGH HE IS INSTITUTIONALLY CLOSE TO DECISION MAKERS. SECONDLY, WHAT RUTAGARAMA HAD TO TELL OUR ECONOMIC COUNSELOR WAS OLD CIPEC WINE. BUT HE SEEMED TO BE PUTTING IT IN A NEW BOTTLE LABELED "URGENT ZAIREAN PRIORITY." HERE IS WHAT RUTAGARAMA HAD TO SAY:

3. CENTRAL ISSUE AT LIMA MEETING WOULD BE THAT OF FINDING WAY TO SET FLOOR PRICE FOR COPPER TO ASSURE STABLE EARNINGS AT LEVEL WHICH TAKES INTO ACCOUNT WORLDWIDE INFLATION, TERMS OF TRADE AND DEVELOPMENT NEEDS OF PRODUCING COUNTRIES. WHAT CIPEC WANTS TO DO IS TO BY-PASS

LONDON METAL EXCHANGE AS PRICE SETTING MECHANISM FOR COPPER. HE INSISTED THAT LESS THEN 20 PERCENT OF COPPER TRADED PASSES THROUGH LME, YET PRICES OF OTHER 80 PERCENT WHICH IS SOLD THROUGH LONG TERM CONTRACTS IS DETERMINED BY LME QUOTE ON DATE OF DELIVERY. THUS, SPECULATORS DEALING WITH SMALL SHARE OF MARKET UNDULY INFLUENCE REVENUES OF PRODUCING COUNTRIES.

4. THEREFORE, ONE OF AIMS OF LIMA MEETING, RUTAGARAMA SAID, WILL BE TO ESTABLISH "PRODUCER'S PRICE ALONG LINES OF U.S. MODEL"--BY WHICH WE PRESUME HE MEANT THAT PRICE OF COPPER WOULD BE "POSTED" BY GOZ AND OTHER CIPEC MEMBERS AND THAT POSTED PRICE WOULD BE ABOVE CURRENT LME. RUTAGARAMA SAID THAT CIPEC LIKED IDEA OF FOLLOWING US MODEL FOR TWO REASONS: (1) SYSTEM WOULD ASSURE PRICE STABILITY OVER TIME AND (2) BY "FOLLOWING US LEAD," CIPEC WOULD BE LESS VULNERABLE TO CRITICISM. (RUTAGARAMA KEPT A STRAIGHT FACE AT THIS POINT).

5. RUTAGARAMA CONTINUED THAT CIPEC WAS ALSO INTERESTED IN SETTING A FLOOR PRICE (DIFFERENT FROM AND LOWER THAN LIMITED OFFICIAL USE

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PRODUCER'S PRICE) "BELOW WHICH IT WOULD NOT BE IN INTERESTS OF MEMBER STATES TO CONTINUE TO PRODUCE "COPPER." THIS FLOOR PRICE WOULD BE MAINTAINED IN BAD TIMES THROUGH CIPEC BUFFER-STOCK SCHEME WHEREBY COPPER PRODUCERS' ORGANIZATION WOULD INTERVENE IN MARKET TO KEEP PRICE ABOVE FLOOR. WHEN ECON COUNSELOR ALLOWED AS HOW SUCH A SYSTEM COULD BE EXPENSIVE AND ASKED WHO WOULD PAY FOR IT, RUTAGARAMA STATED FLATLY THAT "IMF/IBRD" HAD AGREED TO LOAN CIPEC, AS AN ORGANIZATION, NECESSARY

FUNDS--ON INTERESTING TERMS.

6. RUTAGARAMA CONCLUDED BY SAYING THAT CIPEC WOULD ALSO BE ADDRESSING ISSUE OF "HARMONIZING THE COPPER PRODUCTION OF MEMBER STATES" TO ASSURE THAT EACH WOULD NOT OVER-PRODUCE IN PURSUIT OF ITS NATIONAL INTEREST IN WAYS THAT WOULD DRIVE PRICE DOWN FOR ALL. RUTAGARAMA SAID THAT THIS SORT OF CONCERTED PRODUCTION WOULD BE CARRIED OUT ON BASIS OF A STUDY PERFORMED BY BATTELLE INSTITUTE ON LONG RUN CONSUMER DEMAND FOR COPPER.

7. RUTAGARAMA AND ECON COUNSELOR THEN DEBATED OBVIOUS POLITICAL-ECONOMIC ISSUES INVOLVED IN SUCH MOVES BY CIPEC. RUTAGARAMA ALLOWED THAT CIPEC MEMBERS KNEW THAT COPPER WAS NOT OIL AND THAT CIPEC WAS NOT OPEC--BUT AT SAME TIME, THEY WERE ALSO CONVINCED THAT "TIME HAD COME TO DO SOMETHING." WHEN ASKED IF HE THOUGHT LIMA MEETING WOULD BE A SUCCESS; WERE MEMBERS TOGETHER ON MAIN ISSUES?--RUTAGARAMA SAID THAT "LEVEL OF CONCERN ASSURED A COMMON VIEWPOINT." WHEN ASKED IF HE THOUGHT LIMA MEETING WOULD BE "HISTORIC"--A BOMBSHELL ON COMMODITY SCENE--HE REPLIED: "THE QUESTION IS RIPE. AND THE TIME FOR ACTION HAS COME."

8. COMMENT AND QUESTIONS: AS LOW-COST PRODUCER OF COPPER, ZAIRE HAS HITHERTO TAKEN CONSERVATIVE POSITION IN CIPEC COUNCILS. ARGUMENTS AGAINST FLOOR PRICING SCHEMES, EMBARGOES AND PRICE STABILIZATION PLANS FOR COPPER WOULD SEEM TO FAVOR MAINTAINING STATUS-QUO. STILL, WE SENSE NEW URGENCY TO AT LEAST THIS ONE ZAIRIAN'S PITCH, AND SINCE PRES MOBUTU IS KNOWN TO HAVE ONCE BEEN ENTRANCED BY SUCH IDEAS, IT WOULD SEEM PRUDENT FOR US TO LOOK INTO CIPEC QUESTION MORE CLOSELY. FOLLOWING QUESTIONS OCCUR TO US, AND

WE ASK THAT ADDRESSEES, BOTH ACTION AND INFO, SHARE ANY INFORMATION THAT CAN BE PICKED UP:

--DOES IMF OR IBRD INTEND TO FINANCE A CIPEC BUFFER STOCK?
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MORE LIKELY--WOULD THE ARABS DO IT?
(WASHINGTON)

--WE WOULD LIKE TO KNOW MORE ABOUT THE US SYSTEM FOR SETTING COPPER PRICES. IN ADDITION TO SUMMARY AND UPDATE PERHAPS WE COULD HAVE COPY OF 1970 REPORT DONE BY HOUTHAKE FOR CEA. (WASHINGTON)

--WHAT ARE VIEWS OF OTHER CIPEC MEMBERS ON THESE ISSUES AT PRESENT TIME? (LIMA, LUSAKA, SANTIAGO)

--SINCE DIRECTOR GENERAL OF GECAMINES, UMBA, WILL REPRESENT ZAIRE AT LIMA--WHAT ARE HIS VIEWS? (LUBUMBASHI)

--CAN ANYONE LAY THEIR HANDS ON STUDY DONE BY BATTELLE INSTITUTE FOR CIPEC (WASHINGTON, PARIS, BRUSSELS)

--WHAT DO UK AUTHORITIES AND "SPECULATORS" ON LME THINK OF CIPEC'S CHANCESS OF SUCCESS. (LONDON)

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